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OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 32
15 DECEMBER - 25 DECEMBER 1949

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The North China Communist forces have encircled Peiping and Kalgan and are currently in the process of surrounding Tientsin (page 6). SUN Fo, newly appointed Premier, appears to have been successful in the formation of a new "pro-CHANG" Cabinet (page 6). The increasing instability of South China is evidenced by recent reports that local warlord CHANG Fa-kwei is concerting with anti-SOONG elements to overthrow the present Kwangtung regime (page 7).

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In succeeding sections of this Weekly the following marginal notation is used:

- (1) "A", "B", or "C" --importance in B/FE's opinion of the item, with "A" representing the most important ones.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Far Eastern reaction to Dutch "police action" particularly vehement

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Dutch "police action" in Indonesia has brought immediate, and world-wide condemnation. Former colonial areas in the Far East have been particularly vehement in their denunciation of the Dutch. The Philippines have promised to give active support to the Indonesians in the UN. Burma has urged an all-Asiatic conference to consider extending aid to the Indonesians. India is seriously considering breaking diplomatic relations with the Netherlands and denying the use of Indian ports and airfields to the Dutch. Ceylon and Pakistan have often expressed their sympathies for the Indonesians, and Ceylon has officially denied the Dutch use of its harbors and airports. The only reaction favorable to the Dutch has come from French colonial newspapers in Indochina which cite the danger of Indonesian Communism and view the Dutch action as the only practical solution. One paper praises Dutch courage and energy, scorns protests which have been made in Europe, US, and India and sarcastically depreciates possible action by the UN Security Council. Support for the Indonesians has also been forthcoming from other quarters. The UN Good Offices Committee (GOC), in its report to the Security Council, severely indicts the Dutch for unilaterally abrogating the truce. Australia, a member of the GOC, has expressed disappointment in the US and UK for not applying the pressure within their power which the Australians felt would have prevented the "police action." Australia has gone so far as to recommend before the Security Council that the Netherlands be thrown out of the UN unless the attack on the Indonesian Republic is halted. The Arab League will support the Indonesians, and there are indications that the League will refuse to recognize any Dutch-established government in Indonesia. The Soviet Union is gleefully stressing the fact that the Dutch are using British and American military equipment in their operations, and accuses the "Anglo-American imperialists" of planning and instigating the whole affair in order to make Indonesia a colony and its people slaves. The USSR, its satellites, and communist parties throughout the world, may be expected to exploit this opportunity to increase their vitriolic attacks upon the US, and this propaganda may be more effective in the Far East than in the past because of the Dutch military action against the Indonesian Republic. (See International Organization Group Weekly Summary No. 32 for further details on SC action.)

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JAPAN

Japanese reaction to recent Chinese Communist successes. Reports of Chinese Communist Party (CCP) victories have been received with differing emotions ranging from jubilation on the part of the extreme left to anxiety on the part of the center and the right. AKAHATA, Japanese Communist daily, has repeatedly extolled CCP successes and stated that the establishment of the Mao Tse-tung's regime would be the "first step towards the liberation of the Japanese masses." The Japanese press reports the Japanese Communist Party's recruiting program has been very successful in recent weeks. While this may be merely coincidental, it should be recalled that the Japanese have always been acutely sensitive to great movements on the Asiatic mainland.

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The more conservative press is deeply concerned with the security aspects of Nationalist deterioration in China. Some elements see the situation as reflecting the larger US-USSR "cold war", with the unwritten interpretation that the China debacle represents a defeat for the US. The Japanese would be "happier" to have a Nationalist China, even a corrupt one, for a neighbor than a China ruled by the CCP. Believing US assistance is vital to China, Japanese opinion is pessimistic over the amount and the speed of the aid. Feeling the Red sweep in China will be followed-up by Communist pressure on South-East Asia, Korea and Japan, editorial comment sees Japan's security closely bound to that of the US and the consequent need for adequate US support of Japan. Deeply perturbed by the Constitutional prohibition on armed forces, Japanese feel that in the event of hostilities Japan would be treated by the Communists as an "unarmed belligerent" associated with the US.

On the economic side, some elements, in attempting to see an optimistic future, forecast that the CCP will be receptive to trade overtures in view of the CCP's lack of industrial know-how and technicians. Other comment sees the Reds as being willing to do business only on terms favorable to Communism, politically as well as economically. It is felt that government and commercial interests will soon be forced into the realization that trade with Communist China can not be relied upon from a long range viewpoint, to substitute for China's important place in Japan's pre-World War II economy.

US gives SCAP broad powers to speed Japanese economic revival. The US has issued a formal directive to SCAP to tell the Japanese to "carry out an effective economic stabilization program" as "rapidly as possible." Measures are to be adopted, which will assure rigorous control of credit, improve the tax collection program, achieve a true balance in the consolidated budget, establish an adequate wage and price stabilization

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JAPAN (Cont.)

program, improve the effectiveness of the allocation and rationing system, particularly to the end of maximizing exports, increase the production of all essential indigenous raw materials and manufactured products, heighten the efficiency of the food collection program, and improve controls of foreign trade and foreign exchange. The US states that the resultant stabilization will pave the way for the early establishment of a single exchange rate.

The formal directive is a significant implementation of US policy to proceed firmly toward the revival of the Japanese economy. It strengthens and broadens the discretionary powers of SCAP who for some time has been "suggesting" measures of this type rather than issuing formal orders to the Japanese Government. SCAP may be expected to utilize the formal directive as a "big stick" against the extreme forces within Japan which have been hampering efforts toward Japanese economic rehabilitation. At the one pole are the conservatives who desire early removal of controls with a view to maintaining their traditional economic preeminence. At the other are the Communists, who have been increasingly open in their defiance of SCAP efforts toward economic improvement.

The firming of US efforts to stabilize the Japanese economy represents a desire to bring about a revival in Japan as soon as possible so as to curtail the continuing drain of costs of aid and occupation. It is even more a recognition that a stable Japan is of increasingly urgent importance to US strategic considerations, especially in the light of recent events throughout the Far East.

KOREA

Soviet evacuation of North Korea is approaching its final stage. General "B" Merkulov, Commanding General of Soviet Forces in North Korea, has officially notified General Coulter, Commanding General of US Forces in South Korea, that withdrawal of Soviet Forces from North Korea will be completed by the end of December. Arrangements call for crossing the 38th parallel by the respective liaison officers' trains on 25 December 1948. The withdrawal indicates that the Sovietization of North Korea has now been consolidated. The Soviets are leaving behind a North Korean People's Army capable of invading South Korea, and reliable reports of the issue of new citizens' certificates is an indication of the adoption of strict control measures over individual freedom of movement in true police state tradition. It is anticipated that upon completion of the Soviet withdrawal from North Korea there will be a marked increase in border incidents and guerrilla raids into South Korea by bands trained to stir up unrest and to weaken the government in South Korea.

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KOREA (Cont.)

Soviets will again block UN in Korea. Communist policy for Korea will frustrate the efforts of the new UN Commission on Korea to promote unification and to observe Soviet troop withdrawal. The Soviets intend that all Korea shall eventually be unified under their North Korean communist regime and will continue their unilateral intervention in Korean affairs through the facade of the North Korean People's Republic. The Soviets probably will have announced the completion of their troop withdrawal before the Commission arrives in Korea and will state that the only proper authority in Korea is the People's Republic. The North Korean officials, following the Soviet line, have announced that the UN Commission on Korea is an illegal body and the Commission undoubtedly will be refused permission to enter North Korea to check on the actuality of Soviet troop withdrawals. Although the presence of the Commission in South Korea will increase the prestige and morale of the Republic of Korea, it is extremely doubtful if the Commission's arrival will deter the Communists in North or South Korea from initiating any plans they may have for violent action against the Republic.

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CHINA

Communists invest Peiping, threaten Tientsin. The focal point in the "A" civil war last week shifted to North China where the supposedly powerful Nationalist armies of FU Tso-yi have been segmented and compressed into the environs of Kaigan, Peiping, and Tientsin. FU's forces are outnumbered: Communist Generals NIEH Jung-chen and LIN Piao have 470,000 troops opposed to FU's maximum 300,000. He is further weakened by the refusal of Government troops recently assigned to him, including nearly all of both the Peiping and Tientsin garrisons, and the Chinese Air Force to obey his orders. Hence, FU has withdrawn inside the city walls of Peiping, perhaps on the assumption that the Communists cannot shell the ancient city without damaging its historical landmarks and thereby with their propaganda position. At present the Communists have some 12 columns around Peiping, where both airfields have been rendered inoperable and the major source of the city's electric power occupied by the Communists. Manchurian units of LIN Piao, moving south along the railway from Tangshan and southeast from the Peiping sector, have reached the approaches of Tientsin. Inasmuch as Tientsin's airfield has been lost, overland traffic with Peiping cut off, and Tangku reported taken, the early loss of this important North China industrial center is indicated.

Central China was relatively quiet, the Communists having all but finished mopping up the isolated Nationalist units between the Huai River and Hsuehou. Communist forces are currently moving south toward the Huai River area and as a consequence the Nationalists are withdrawing all but two armies south from Pangfou and the Huai River front. Also, the Nationalist High Command appears to have lost track of a large number of the Communist columns formerly in this area. Meanwhile, east of Hungtze lake, 40,000 Communists, under SU Yu, captor of Tsinan, have reportedly driven as far south as Kacyu. The Nationalist defenders in this area have withdrawn to Yangkou and Chinkiang, the latter on the Yangtze River 40 miles northeast of Nanking.

Formation of a new Cabinet headed by SUN Fo evidences CHIANG Kai-shek's determination to continue resistance to the Communists despite general unwillingness of his high officials to support this program without assurance of extensive US aid. The Cabinet includes an inner policy-making group which represents various Kuomintang cliques but its decisions on vital questions are expected to reflect CHIANG's wishes. None of this group wanted to serve and all, except possibly CHEN Li-fu, strongly favor attempts to make peace with the Communists. SUN's public statement regarding the possibility of an "honorable peace" may reflect CHIANG's hopes for temporary stabilization of the military situation and for future US aid. Although both the Cabinet peace group

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and other peace advocates such as Vice President LI Tsung-jen want an immediate truce, they apparently are at a loss to find the means by which a satisfactory settlement might be reached with the Communists.

Since the Cabinet includes Rightist Kuomintang leaders in prominent posts, it may be unable to negotiate a truce in any event. Its leaders, therefore, may consider a resort to some form of international action designed to buttress the National Government's weak bargaining position. Possible courses of action include proposals for some form of mediation or diplomatic activity by the US, by the USSR, by these powers jointly, by the Big Three signatories of the Moscow Declaration of 1945, or by the Big Four who, in addition to China, have permanent seats in the UN Security Council. Any such diplomatic initiative on the part of the National Government would be consonant with Chinese diplomatic traditions which are characterized by efforts to shift responsibilities to the international realm and to profit by bringing into focus the conflicting interests of the great powers.

A growing trend toward instability in South China is evidenced by recent developments. Despite Governor T. V. SOONG's year-long efforts in Kwangtung, Communist and other guerrilla activities have not been suppressed and recently have increased. General CHANG Fa-kuei, local warlord who several times in the past resisted the National Government, is again in Canton. Although ostensibly planning to organize Nationalist troops, CHANG reportedly is concerting with local generals to overthrow the SOONG regime. In this venture he may cooperate with Communist and other dissident forces which already control considerable areas in Kwangtung and Hainan. Such an uprising would be facilitated by SOONG's unpopularity as well as by the military weakness of discredited Nationalist elements which may be transferred to Canton when Nanking falls. A further factor is the recent escape to Hong Kong of LUNG Yun, former warlord of Yunnan, whose name has been linked with various dissident groups, including the Kuomintang Revolutionary Committee. Although LUNG's interest in Yunnanese autonomy would cause him to favor establishment of a non-Communist regional government in South China, considerations of expediency might dictate his collaboration with a Communist-supported movement there.

Influx of National Government units and refugees into Taiwan will sharpen existing tensions there and intensify popular anti-Chinese feeling. Despite some efforts of the provincial government to discourage the movement, tens of thousands of refugees, including some officials, are seeking safety in Taiwan. Moreover, Nationalist naval and air forces are being transferred to the island. Communist activities, hitherto of slight importance, reportedly are increasing. It has been reported that Communists are infiltrating the unpatrolled coasts and that the Communists may attempt to seize some Chinese naval vessels.

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However, general anti-Communist feeling and increased Nationalist military strength in Taiwan make difficult any early seizure of power by the Communists.

Soviet trade with China in 1948 has been characterized by exports of important strategic materials from South China, and a large volume of trade with the Communists in Manchuria. China's 1948 exports to the USSR have been sizeable, although most of the trade is unrecorded and must be estimated. Recorded exports consisting of bristles, tea, silk and goat skins will amount to US \$3 million to US \$4 million. An equal value of strategic metals (tungsten and antimony) has been shipped under the 1938 Sino-Soviet barter agreement. Hong Kong's exports (US \$3 million for the first half of 1948) to the USSR were largely strategic materials re-exported from China. An additional undetermined quantity of these strategic items, smuggled out of China, are ultimately purchased by the USSR throughout the Far East.

Communist Manchurian trade is probably several times greater than Nationalist trade, with the USSR, although Manchuria's agricultural and lumber surpluses are less significant to the Soviet Union than the minerals the USSR gets from South China. If the soybean and grain surplus north and east of the Sungari River all goes to the USSR, which is probable, its value would be around US \$30 million. According to reports, Communist imports into Manchuria consist largely of munitions, textiles, petroleum products and trucks. The Manchurian pattern of trade with the USSR, i.e., exporting food and agricultural raw materials for finished goods, appears to be fairly well stabilized and will continue next year, possibly on a larger scale if agricultural production continues to be expanded in Manchuria.

Communist occupation of China's large cities, such as Tientsin and Shanghai, if it occurs this winter, will not present the Communists with insurmountable fuel problems since almost all of China's large coal mines are now in their hands. The Kailan mines can easily supply all of North China. In addition Tientsin has coal stocks adequate for several months and Peiping has the nearby Mentoukou anthracite mines. Fuel for Shanghai and Nanking, presently very short of coal, will come from three sources: 1) the Kailan mines will be able to ship much coal to Shanghai despite any attempted Nationalist blockade; 2) the Huainan mines in Anhwei can move large accumulated stocks to the Yangtze when the Tientsin-Pukow Railroad is reopened; 3) Shanghai has petroleum stocks on hand sufficient for several months at the present high rate of consumption. If Shanghai receives enough coal, its industries, particularly the Shanghai Power Company, would probably reconvert to coal. It is estimated that with minimum consumption present oil stocks would last for one or two years.

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INDONESIA

Republican resistance to Dutch military drive. Dutch forces met with little initial resistance in their police action against the Republic which began at midnight on 18 December. Jogjakarta, the capital, fell to Dutch paratroopers in the first few hours of fighting. Although Dutch forces now occupy Jogjakarta and Soerakarta, the second ranking Republican city in Java, Republican military resistance in surrounding areas appears to be developing. Strength of the regular Republican Army (TNI) is estimated at 100,000, with 7 of its divisions in Java and 3 in Sumatra.

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It is believed by pro-Republican sources in Indonesia that the Republic is withholding application of its most effective weapon, "scorched earth," until the UN Security Council has made its decision. Republican elements, however, have already resorted to a limited scorched-earth policy by firing its oil center at Tjepoe before it fell to Dutch troops.

In view of the fact that ranking military and political leaders were captured by the Dutch at the beginning of the action, it will be some weeks before Republican nationalists will be able to organize an effective campaign against Dutch installations. Meanwhile the danger exists that former Republican groups will support the alleged Trotskyite, Tan Malakka, who had made considerable headway as a left-wing leader in the Republican political circles.

PHILIPPINES

Increasing concern expressed over Chinese Communist gains. As a result of Communist successes in China, Philippine officials and the press are showing increasing concern over the Philippine Government's position vis-a-vis China and Communist activity within the Philippines. Both Secretary of National Defense Ruperto Kangleon and Narciso Ramos, newly appointed Minister to Argentina, have warned that developments in China constitute a threat to the security of the Philippines. Editorial opinion in the Manila Press has recently expressed the fear that a gradual US military withdrawal from the Philippines may leave the country open to attack by Communist forces. Meanwhile the House Committee on Un-Filipino Activities, which has been conducting hearings to determine the strength of Communists in the Philippines, has stated that a series of bills designed to combat communism and to tighten immigration restrictions will be introduced in the Congress in January.

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Possibly reflecting encouragement from Chinese Communist gains was a defiant report written by Mariano P. Balgos, Secretary General of the Communist Party of the Philippines (PKP), and distributed to the press following his appearance before the House Committee on Un-Filipino Activities. Balgos stated that the PKP hopes ultimately to establish communism throughout the Philippines but is willing to compromise at the moment on

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PHILIPPINES (continued)

a coalition government. He said the PKP seeks to achieve its goal by constitutional means but will not hesitate to use force if necessary to restore democratic liberties. Declaring that, "We are aiming at the overthrow of the imperialistic-feudal-fascist domination of the country," he further said that the main enemy of the masses is US imperialism, and that the chief "fetters" of the Philippines are the US troops based in the Islands. He stated that the Communists intend to keep their total membership secret and warned that the party will go underground if outlawed. Balgos is reported to have told the Committee that there is no connection between the PKP and the Chinese Communist Party or the "Cominform," but that in case of war between the US and the Soviet, he himself would side with the USSR.

SIAM

Import controls established. The recent proclamation of a Royal decree establishing an import control licensing system by Siam appears to be another step in the evolving economic nationalism of the Phibul regime. The controls cover, among others, the importation of cosmetics, a variety of foods, automobiles, cement, and linseed and tung oil. While the success of the licensing system is considered dubious unless strong exchange controls are considered, the import controls were believed established: (1) to strengthen the baht preparatory to a single exchange rate for participation in the International Monetary Fund and a possible request for a World Bank Loan; (2) as a slap at the Chinese; (3) to expand the activities of the Government Purchasing Commission; and (4) to provide a profitable traffic in import permits.

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SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

SOVIET - CHINESE COMMUNIST RELATIONS

The USSR appears to have approved once again certain Chinese Communist tactics which, while at variance with present practices within the USSR, are recognized by the USSR as those most suitable to the Chinese situation. This process began in 1931, following the failure of LI Li-san's "proletarian revolution" in China; the USSR, recognizing the inapplicability of the Marxist formula to China, removed LI to Moscow, and MAO Tse-tung continued to build the Chinese Communist Party (CCP) upon an organized and armed peasantry.

The most recent Soviet evaluation of CCP domestic policies appears in a speech by one Comrade Burzhalov, a functionary of the Section of Agitation and Propaganda of the Central Committee of the All-Russian Communist Party (Bolshevik), whose pronouncements may be regarded as authoritative. Burzhalov remarks that the Comintern, "a single centralized and international Communist Party," was dissolved because the various Communist Parties had grown stronger and "were leading independent lives." However, because "the Communist movement is, in its essence, an international movement," the various Parties must "work out a single tactical program." To this end, the Cominform was organized. Burzhalov celebrates the success of the Communist effort in Eastern Europe, and remarks that "the New Democracies follow the same road as...our own country, ...although in a somewhat different manner." There has been one great betrayal: the leadership of the Yugoslav Communist Party "chose to break away from the united Communist front...and adopt a nationalist position." Nationalism is all very well, says Burzhalov, but "in no case should lead to a severing of international ties." To speak frankly, "the touchstone for all Socialists is the attitude they assume toward the Soviet Union." (Burzhalov himself makes it clear that the "single tactical program" is not a primary consideration; the essential question is whether the given Communist Party can be relied upon to subordinate the national interest to the interests of the USSR.)

Of China, Burzhalov says: "Everyone knows the tremendous successes... (of) the People's Liberation Army of China...These successes may be explained not only by the military valor of the Chinese Communists...but primarily by (their) correct policy..." The revolution in China is leading to "a People's Democracy," which "is not, however, identical with the People's Democracies of Eastern...Europe." Burzhalov quotes MAO on the goal of the CCP: "the extermination of monopoly (bureaucratic) capital and of the landlord class and the big (bureaucratic) bourgeois class, but not the extermination of capitalism in general or... of the small and middle bourgeoisie." The backwardness of the Chinese economy makes it necessary to allow the capitalist system...to continue to exist for a long time yet." Burzhalov credits the

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CCP with having "jarred into motion a gigantic nation," and states that, "following the example of the Chinese Communists, the Communists of other countries of the Far East have also been waging a self-sacrificing battle...." Burzhalov concludes by exhorting all Communist Parties to study carefully "the triumphant experience of our (Soviet) Party."

The policy of the CCP, in conducting a revolution which has been primarily a national movement, based on the peasantry, and tentatively conciliatory toward non-Communist forces, has in fact been endorsed by both Lenin and Stalin. But such justification was provisional: the revolution, to continue in Soviet favor, must subordinate the national movement to the international and the peasantry to the proletariat, and eventually dispose of the non-Communist forces. Long ago, Stalin wrote that the USSR will support "those movements... of the peasantry...which assist the emancipation movement of the proletariat... (and) help to transform the peasantry into a reserve and ally of the working-class." Likewise, "support must be given to such national movements as tend to weaken and overthrow imperialism." (However, "when the national movements... come into conflict with the interests of the proletarian movement," i.e., with Soviet interests, "support is, of course, entirely out of the question.") In regard to conciliatory tactics, Stalin quotes Lenin: "To carry on a war for the overthrow of the international bourgeoisie,...and to refuse beforehand to maneuver, to utilize the conflict of interests (even though temporarily) among one's enemies, to refuse to temporize and to compromise with possible...allies-- would not this be ridiculous...?"

Often, in the past year, CCP leaders proclaimed that the CCP, because it recognizes the USSR as its principal friend and the US as its principal enemy, deserves the approval and support of the USSR. In MAO's Christmas Day speech in 1947 (from which Burzhalov quoted), MAO defined the CCP economic program as one of gradual collectivization of agriculture and the preservation of independent "small business and capital.... The guiding principle," said MAO, "(will be that of) developing production and a flourishing economy, taking into account both public and private interests and benefits to both labor and capital." The USSR is aware, however, that the "bourgeois capitalist" period in China is a temporary concession, and that MAO plans, both by releasing capital for industrial development and by collectivization of agriculture, to release peasants from the land to form a docile and dependable proletariat. In the above speech, MAO emphasized that the "crisis" which is "menacing American imperialism" has compelled the US to "plan for enslaving the world," specifically by organizing an "imperialist anti-democratic front against all democratic forces headed by the Soviet Union." MAO endorsed the establishment of the Cominform, and declared that the "anti-imperialist forces of the various Eastern countries should also unite...."

In July 1948 the Central Committee of the CCP resolved that the Cominform's condemnation of the Yugoslav Communist Party was essential, in order "to defend

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the people of Yugoslavia from the deception and aggression of American imperialism." The CCP observed that "the Tito bloc...adopts an anti-Soviet attitude,... and continues to regard international Communism with hostility."

MAO stated his views even more aggressively in the Cominform journal in October: that events have "proved the utter hypocrisy and bankruptcy" of those who seek "a middle road...between imperialism and the Soviet Union." Not merely the countries of Asia, but "all revolutionary forces...must organize an anti-imperialist front headed by the Soviet Union."

The CCP's leading Marxist theoretician, LIU Shao-chi, wrote last month that the "American imperialist plan for world enslavement accelerates the development of the general crisis of capitalism." Communists everywhere will resist such a plan, and will particularly encourage the resistance of "colonial and semi-colonial countries." In this world crisis, "people must stand either on the one side or on the other."

The happy unanimity suggested above, while probably genuine at the moment, is not necessarily permanent. It will be no simple matter to transform Chinese nationalism into Soviet internationalism. In addition, the USSR has frequently called for the purification of all Communist Parties, and certain CCP leaders and their followers would resent and perhaps resist a Soviet-inspired purge. Moreover, it is possible that the USSR seeks direct control of a "People's Republic" of Manchuria, and will also attempt to annex Inner Mongolia and Sinkiang, restricting to China Proper the authority of the less dependable CCP leaders. Another important consideration might be implicit in MAO's phrase: "We (Orientals) should hold our destinies in our own hands." It is probable that the CCP aspires to lead the Communist movement in Asia; this might lead to a contest with the USSR for control of the Communist movement, particularly in Southeast Asia. Such a contest might well wipe out, on both sides, much of the cordiality and common cause which have been expressed and evident to date.